Air Canada's (TSX:AC) Net Cash Burn Improves in Q3: Should You Buy?

Description

Shares of **Air Canada** (TSX:AC) are up about 22% in the morning trade, as Canada's largest passenger airline company reported a stark improvement in its net cash burn rate. A positive development on a potential coronavirus vaccine further lifted airline stocks, including Air Canada.

Investors should note that **Pfizer** and **BioNTech** announced that their vaccine was found to be highly effective in preventing COVID-19 in people with no prior history of the infection. The positive development gave a significant boost to the shares of the ailing airline companies with Air Canada's American peers, **Delta Air Lines** and **American Airlines Group**, recording a 14% and 11.5% jump in their stock price, respectively, at the time of this writing.

Coming back to Air Canada, its Q3 net cash burn of $818 million (or $9 million per day) came way better than management's expectations of $1.35 billion to $1.6 billion (or between $15 million to $17 million per day). While its net cash burn improved in Q3, its revenues marked sequential growth. Also, the year-over-year decline rate in its top-line decelerated from the preceding quarter, which is encouraging.

Air Canada reported revenues of $757 million in Q3, up about 44% on a quarter-over-quarter basis. However, as expected, its revenues plunged 86% on a year-over-year basis. Air Canada reported a third consecutive operating loss in Q3, despite a significant decline in operating costs.

Are people returning to the sky?

With the resumption of domestic operations, passenger volumes have improved from the lows of April. However, airline companies continue to grapple with lower passenger volume than the pre-pandemic levels reflected through the deep capacity cuts.

Take Air Canada, for example. Its available seat miles dropped 92% and 81.7% in the second and third quarter of 2020, respectively. Air Canada eliminated 20,000 jobs and indefinitely suspended operations on 30 domestic routes to remain afloat amid lower passenger demand. It increased the cargo capacity and is focusing on all-cargo flights to add cushion to its bottom line.

As for Q4, Air Canada is projecting a capacity reduction of about 75%, implying that the passenger sentiments continue to stay negative for air travel in the near term. The continued closure of the international borders, and the resurgent virus could remain a drag.

However, Air Canada’s capacity forecast also reflects an improvement from Q3, reflecting a gradual pickup in demand. Also, a vaccine against the COVID-19 pandemic could significantly boost the passenger volumes, driving a steep recovery in the airline stocks.

Should you buy Air Canada stock?

Amid the uncertainty, shares of the passenger airline companies could remain highly volatile in the near term and could lead to significant losses. However, investors with a longer-term outlook could consider buying the shares of Air Canada at the current levels.

All of its key performance metrics, including revenue passenger miles, available seat miles, and passenger load factor, have improved sequentially and point to a gradual improvement in demand. While its stock jumped about 22%, it’s still down about 60% on a year-to-date basis, implying investors could gain significantly from its recovery.

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